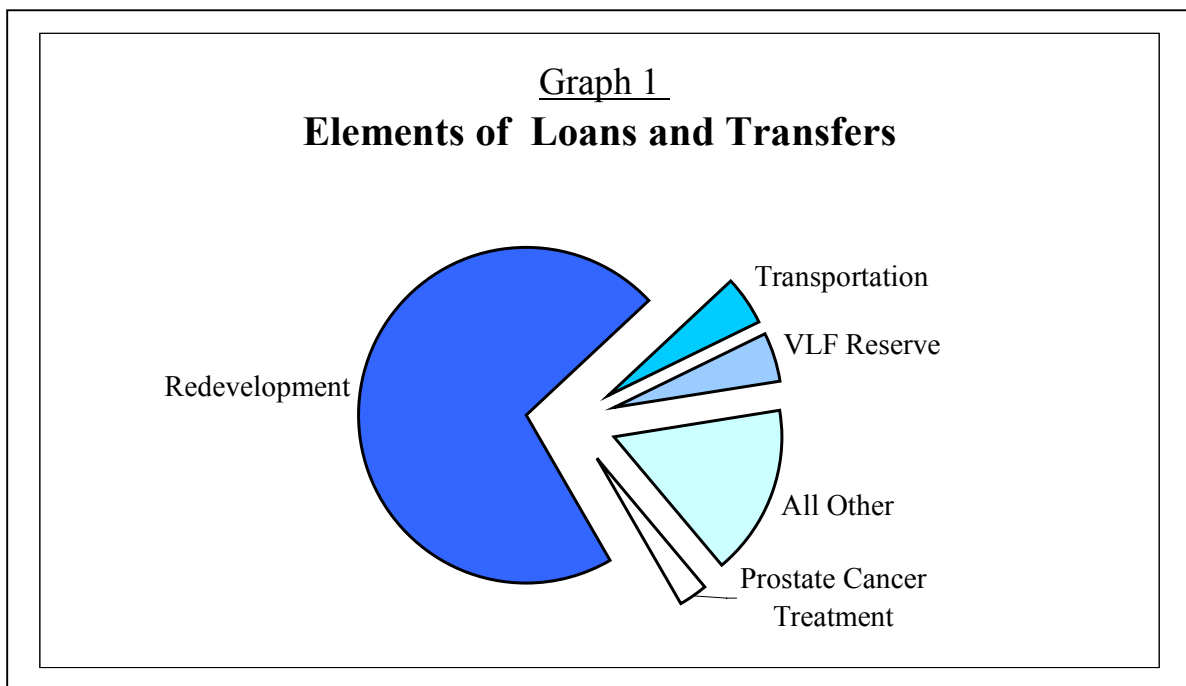


# Loans and Transfers

## LOANS AND TRANSFERS

The December Revision includes loans and transfers to the General Fund. Cumulatively, these transactions totals \$685.6 million in 2002-03 and \$14.1 million in 2003-04. The single largest transaction is a \$500 million is a shift from redevelopment agencies to the state. Graph 1 displays the elements of the loans and transfers.



### Background

The 2002-03 budget authorized loans and transfers from special funds to address the shortfall in the General Fund. Loans to the General Fund totaled slightly more than \$2 billion and transfers are more than \$500 million.

***Loan Conditions.*** Chapter 1124, Statutes of 2002 (AB 3000) provided that funds may be loaned from one state fund or account, if the following conditions are met:

- The loan is authorized in the Budget Act,
- The terms and conditions of the loan are set forth in the loan authorization, including an interest rate,
- The loan is considered part of the balance of the fund or account, and
- Fees and assessments will not be increased as a result of the loan.

Loaned moneys may not be considered a transfer of resources for purposes of determining the legality of using the funds.

The Director of Finance is required to order the repayment of all or a portion of the loan if either the fund or account *making the loan* needs cash, or the fund or account *receiving the loan* does not need the money.

***Reporting Requirements.*** The Department of Finance (DOF) is required to report to the Joint Legislative Budget Committee (JLBC) whenever a fund or account repays its loan. DOF is required to report the year-end balances annually for each outstanding loan to JLBC. The Governor's Budget, released on or before January 10 of each year, must also detail any outstanding loan balances.

***Discussion of Repayment of Loans by Fiscal Year.*** The Legislative Analyst (LAO) estimated in November 2002 that net repayments of loans of about \$450 million would have to be repaid in 2003-04, \$887 million in 2004-05, and \$345 million in 2005-06, for a General Fund cost of \$1.6 billion over the next three fiscal years. The vast majority of this amount (\$1.4 billion) is to repay the loan from the Traffic Congestion Relief Fund (TCRF). The LAO assumed that the repayment of the additional loans would result in annual payments of approximately \$50 million over the next 8 years.

## DECEMBER REVISION

The December Revision includes additional transactions of \$685.6 million in 2002-03 and \$14.1 million in 2003-04. Of this amount, \$500 million is not a fund transfer, but rather a proposal to shift local property tax from local redevelopment agencies to the state.

The following is a discussion of the major loans and transfers by subject area:

***Housing and Community Development.*** The 2002-03 budget authorized loans of \$28.1 million and transfers of \$4.7 million to the General Fund from funds administered by HCD. There were additional transfers of \$8.6 million approved contingent upon passage of Proposition 46 on the November 2002 Ballot.

The December Revision includes transfers of \$17 million from various housing special funds to the General Fund. This amount includes transfers of \$5.6 million from the Self-Help Housing Fund and \$3.0 million from the Farmworker Housing Grant Fund that were approved in the 2002-03 budget act contingent upon passage of Proposition 46.

The following are additional proposed transfers to the General Fund:

- *Self-Help Housing Fund.* The December Revision includes to increase the \$5.6 million transfer by \$5.5 million from funds previously appropriated for Self-Help housing projects that will now be funded through Proposition 46 bond funds.
- *Predevelopment Loan Fund.* The December Revision includes the transfer of \$1.9 million in uncommitted funds from the Predevelopment Loan Fund.

The December includes the following loans of uncommitted funds from seven special funds to the General Fund totaling \$18.1 million:

- *Housing Rehabilitation Loan Fund.* The revision includes to increase the previously approved loan of \$20 million by an additional \$7.3 million. This will still leave a reserve in the fund of more than \$2 million.
- *Self-Help Housing Fund.* The revision includes a loan of \$3.4 million in addition to the \$11.1 million transfer from this fund.
- *Mobilehome Park Purchase Fund.* The revision includes to increase the previously approved loan of \$8.1 million by \$2 million.

- *Farmworker Housing Grant Fund.* The revision includes a loan of \$1.5 million in addition to the transfer of \$3 million from this fund authorized in the 2002-03 budget act.

The revision includes a loan of \$1.8 million from the Rental Housing Construction Fund, \$1.6 million from the Emergency Housing and Assistance Fund, and \$500,000 from the Manufactured Home Recovery Fund.

***Department of Transportation (Caltrans).*** The 2002-03 budget included transfers of \$20.4 million and loans of \$1.2 billion from funds administered by Caltrans. The December Revision includes additional transfers of \$120.2 million in 2002-03 and \$1.5 million in 2003-04 and additional loans of \$50 million in 2003-04.

The following transfers and loans to the General Fund are proposed:

*Traffic Congestion Relief Fund (TCRF).* The December Revision includes to transfer \$100 million from TCRF to the General Fund in 2002-03. This is a recapture of General Fund resources committed to TCRF in the past. The 2002-03 budget act included a loan of \$1.045 billion loan from TCRF to the General Fund. The Revision also proposes to suspend the repayment of \$50 million from TCRF to the State Highway Account in 2003-04.

*State Highway Account (SHA).* The December Revision includes to transfer \$15 million from SHA in 2002-03 to reflect reduced Statewide Cost Allocation Plan Recoveries than anticipated. Trailer bills to the 2002-03 budget loaned \$173 million from the SHA to the General Fund.

*Aeronautics Account.* The budget proposes to increase the transfer of \$6 million from the Aeronautics Account included in the 2002-03 budget act by an additional \$5.2 million in 2002-03 and \$1.5 million in 2003-04.

***Technology, Trade and Commerce Agency.*** The 2002-03 budget included transfers of \$16 million and loans of \$37.1 from funds administered by the Technology, Trade, and Commerce Agency (TTCA). The December Revision includes transfers of \$2.7 million and loans of \$6.2 million from funds administered by TTCA. The major components are as follows:

*California Film First Fund.* The December Revision includes to transfer \$1.8 million from this fund to the General Fund. This transfer is due to program reductions of \$2.1 million of the \$12 million available, which is line with annual

expenditures in recent years. The revenue source for this fund is the General Fund. The Revision also proposes to transfer \$275,000 of unspent funds from prior years.

*Petroleum Underground Storage Tank Fund.* The 2002-03 budget included a loan from this fund to the General Fund of \$17 million. The December Revision includes to increase this loan by \$4.5 million. This fund takes in revenue of between \$2 and \$5 million annually and has expenditures over \$10 million per year. This loan will leave the fund with a small fund balance.

*Rural Economic Development Infrastructure Bond Fund (REDIP).* The 2002-03 budget provided a loan of \$8.4 million to the General Fund from this fund. The Revision includes to increase this loan by \$1.7 million.

There are additional small transfers from unused funds from other funds administered by TTCA.

***Special Reserve Fund Vehicle License Fee (VLF) Tax Relief.*** This fund was established to refund VLF at the time that the VLF offset was rebated to taxpayers. SB 22 of 2001 changed the rebate to a VLF offset. The remaining balance of \$45 million in the Special Fund Reserve was proposed by the Administration to be transferred to the General Fund in 2002-03. The State Controller contended that any remaining amounts could be transferred without any budget bill or trailer bill language. It has since been determined that budget or trailer bill language is necessary.

The December Revision transfers the remaining \$33 million in this fund to the General Fund.

***Low and Moderate Income Housing Fund.*** The revision to “transfers” \$500 million of unencumbered prior year local property taxes for low- and moderate-income housing to the state General Fund. The state General Fund has benefited from changes in the allocation of property taxes from local agencies to school districts through reductions in General Fund appropriations to school districts. The proposal in the December Revision, which is most likely unconstitutional, would require redevelopment agencies to remit local property tax revenue to the state General Fund. This proposed shift of local property tax revenues to the state is discussed in the section on Local Government.

## ALTERNATIVES

**High Cost Fund B.** The 2002-03 budget act transferred \$250.9 million from the High Cost Fund B to the General Fund. This transfer was approved late in the budget process and budget bill language that would have provided that fees and assessments would not be increased as a result of the transfer was inadvertently omitted.

The High Cost Fund B provides transfer payments to telephone corporations providing local exchange services in high-cost areas in the state to create fair and equitable local rate structures; the development of a grant program for the construction of telecommunications infrastructure; and to carry out the program pursuant to the commission's direction, control, and approval.

*The Legislature may wish to consider adopting language in January that would provide that fees and assessments for High Cost Fund B cannot be increased as a result of the transfer.*

**Transfers and Loans are One-Time Solutions.** The proposed transfers and loans are one-time solutions with the detrimental impact that they also create out-year costs. Many of the transfers will leave very low reserves in the special fund that will necessitate either fee increases or program cutbacks in future fiscal years. The loans are required to be repaid when there is a need for the revenue. Some of the proposed loans will result in such small fund balances that the loans will have to be repaid as soon as 2003-04. While there may not be a fiscal need to repay the loans in the next several fiscal years, all of the loans will eventually need to be repaid resulting in an out-year liability for the General Fund.

*The Legislature may wish to consider alternatives to increased loans or transfers, such as:*

- *Permanent reductions to programs funded from the affected funds.*
- *Elimination of special funds that are predominantly funded by transfers from the General Fund.*

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